

Internet Direct Marketing

New developments promise a generation of even more powerful Internet-enabled direct marketing techniques.

By Jeff Wilkins

EXECUTIVE SUMMARY

- Businesses are using e-business technology to improve the effectiveness of sales and marketing, including automating the collection, tracking, and closing of sales leads.
- Future technology and business process developments promise a generation of even more powerful e-business direct marketing techniques.
- This article examines the impact of the Internet on direct marketing, describes current and future marketing methods, and presents case studies of innovative businesses that gain compelling cost, time, and quality advantages using the Internet.

Direct marketing (DM) has grown into a major strategy for getting and keeping valuable customers. The size and scope of direct marketing—using direct mail and catalogs, telephone marketing, and direct response print, broadcast, and other media—is enormous. In 1997, U.S. businesses spent US\$153 billion on direct marketing, resulting in over US\$1.2 trillion in consumer and business sales. According to the Direct Marketing Association, telemarketing at US\$58 billion and direct mail at US\$37 billion are the most popular DM media. Most businesses use direct marketing for lead generation, accounting for 56 percent of expenditures. Direct order and traffic generation are other common goals of direct marketing techniques.

Direct marketing has been immeasurably enhanced by the construction of ever more powerful customer/prospect databases, predictive modeling techniques, and advances in fulfillment techniques—even with these enhancements, DM is still an expensive undertaking, often characterized by long lead times to implement campaigns, and poor response rates.

The Internet is a direct marketing medium that can circumvent these limitations. The Direct Marketing Association estimates that expenditures for interactive media (mostly Internet) will grow from US\$275 million in 1997 to US\$3.5 billion in 2002. Compared with

conventional techniques, the Internet appears to offer compelling cost, time, and response-rate advantages. An array of new direct marketing programs are already enabled by the Internet. This article surveys innovative e-business practices you can put to work now to improve your direct marketing results.

Leveraging addressability and accountability

Much Internet marketing activity has focused on using targeted Web banner advertising. But e-mail lists, including e-mail addresses compiled by mining the Internet are also important.

In its infancy, Web banner advertising was seen as an alternative to print advertising and was used primarily for brand building. Advertising rates usually were quoted in cost per impression—how many times a banner ad was shown.

The real strengths of the Web weren't exploited. The addressability and accountability of the Web—direct marketing attributes—allow much more. The development of sophisticated banner ad networks such as DoubleClick, and ad server tools such as NetGravity AdServer, allow banner ads to be targeted based on the demographics and psychographics of the Web user. What's more, the effectiveness of a banner ad, as measured by click-through, can be readily tracked.

Improved technology can have a profound impact on the business model of a Web site. Banner ad pricing is moving from cost per impression (US\$5-\$20 per thousand impressions), to cost per click (about US\$250 per

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thousand clicks). A new model, cost per order, is on the way. Electronic commerce partnerships between leading navigation hubs or portals, such as Yahoo, Excite, and Lycos, and direct marketers have become popular. Typically, a portal is guaranteed a minimum payment and receives a percentage of all transaction revenue generated through the site.

Banner ad networks are evolving into direct marketing vehicles. A good example is DoubleClick Direct, a response-oriented service where direct marketing conducts targeted advertising on a cost per action basis. When a Web user visits a site in the DoubleClick Direct network and clicks on a banner ad, the click triggers DoubleClick's ad management technology, running on DoubleClick's server. It completes dynamic ad matching, targeting, and delivery functions within milliseconds. Banners are hyperlinked to special advertisers' pages. Advertising can be targeted based on a variety of factors, including user interests, time of day, day of week, organization name and size, domain type, operating system, and user-entered keywords. DoubleClick

collects the response information, such as lead form, sale information, and download registration, and delivers it to the advertiser.

E-mail-ubiquitous push technology

According to the Direct Marketing Association, the average cost of a direct mail campaign is nearly US\$1 per mailed piece. This includes creative, printing, mailing list rental, computer processing, lettershop services, and postage. A conventional direct mail campaign can take months to execute. And an offer targeted at an unfocused list, and using only paper or telephone response mechanisms, often generates only a 1 to 2 percent response.

Many direct marketers regard e-mail as the natural substitute for printed direct mail. E-mail is a push technology that offers low-cost, immediate, high-impact contact with customers and prospects. The text is commonly a short (four to five paragraphs), compelling description of the offer. A URL points to a lead-capture or direct-order Web form.

Direct marketers use e-mail to prospect for customers, and to promote to existing customers. These activities are typically guided by two rules of conduct:

Opt-out for customers—If a business relationship with customers has already been established, then it's usually acceptable to contact them by e-mail, with one important caveat: All mailings should provide and abide by an opt-out mechanism. One simple approach tells recipients to send a return e-mail message with REMOVE in the subject field, and/or to an address such as remove@yourdomain.com.

Opt-in for prospects—Marketing to new potential customers is more problematic. Sending high volume, unsolicited commercial e-mail is a recipe for disaster. Many reputable marketers use opt-in e-mail lists to circumvent these problems. Opt-in lists contain individuals who have given explicit permission to receive promotional e-mail. These lists are available to cost-effectively target almost any group/segment.

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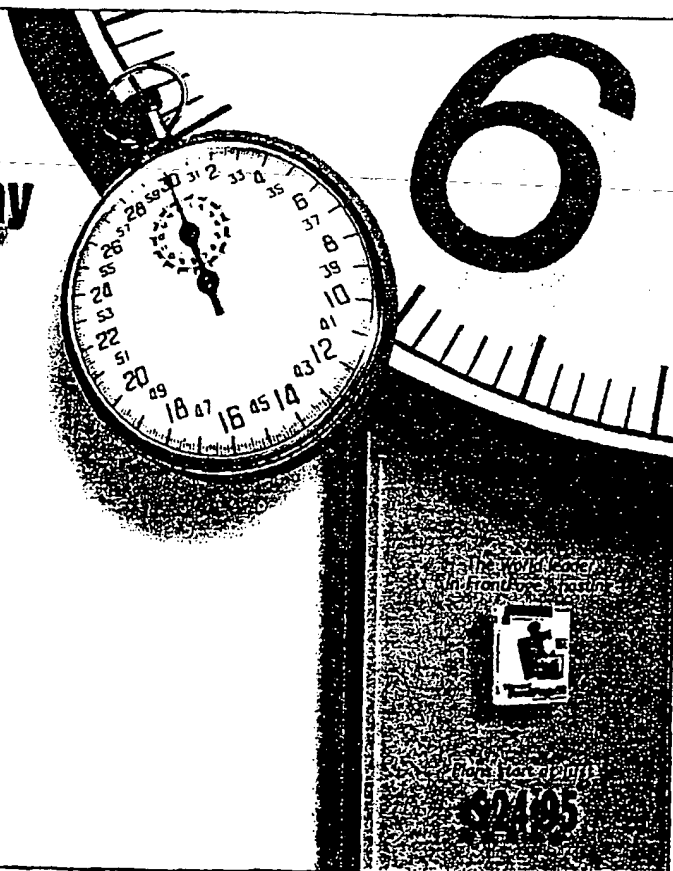
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Opt-in lists are compiled in several ways. Some compilers run banner ads linked to Web forms that let visitors sign-up for promotional offers in hundreds of categories. Many controlled-circulation magazines collect e-mail addresses for use in renewal activity; subscribers who agree are also included in rentable lists. A third approach leverages topic-focused e-mail newsletters and Internet discussion forums.

Opt-in e-mail lists typically cost US\$100-\$300 per thousand depending on the desirability of the list and the available selections, such as demographics and psychographics. The price typically includes e-mail address rental for one-time use, and e-mail transmission charges. Response rates of 5 to 7 percent are common.

E-mail service bureaus, such as Sift, Inc., let direct marketers outsource all data enhancement, list processing including bounce and opt-out processing, transmission, reporting, order processing, and database management. Prices start at about US\$100 per thousand for basic list processing, transmission and reporting.

Internet-compiled lists

The Internet is much more than just an inexpensive conduit for contacting prospects. It provides access to a wealth of demographic and psychographic data that can be mined for sales prospects. There are many ways of sifting through the Internet to compile postal, telephone, and fax prospect lists. Intelligently mining the Internet can produce lists of likely buyers, called intender leads.

Internet discussion forums, for example, are a powerful source of intender leads. Finding qualified and motivated buyers is always a goal of direct marketers. Using conventional approaches such as direct mail or trade shows, even a half-baked lead can cost hundreds of dollars. If the cost of subsequent discovery and qualification to find true intenders is added, the cost skyrockets. And it isn't just that conventional approaches to lead generation are expensive. Navigating the sales funnel can take months.

Customers value word-of-mouth recommendations in making buying decisions. Historically, the counsel of a small number of knowledgeable colleagues was solicited. Now, through Internet discussion forums, users can tap a worldwide community of expertise on what and where to buy.

An Internet forum-based, lead-generation service, such as Sift's Prospector, can provide a system for identifying intender leads from these forums. In the case of Prospector, the conversations in more than 100,000 USENET newsgroups, mailing lists, and Web forums is continuously monitored—more than one million messages a day are scanned. Using proprietary search ontologies, intenders expressing an interest in buying a given category of product or service are automatically identified. As a value-added service, a profile including name, postal address, e-mail address, telephone number, and additional demographic information such as job title, employer, and employer SIC code can be provided. These leads can be quickly shepherd through the sales funnel.

Future developments: Infrastructure

The future promises significant enhancements in e-business direct marketing. Much of the infrastructure underlying the conventional direct marketing industry will be migrated to or replicated on the Internet. Consider the case of consumer and business databases.

New technology will link e-mail addresses and name/postal addresses, the key used to access conventional direct marketing databases. Once completed, the awesome power of database marketing tools like Axiom Infobase—a database containing hundreds of attributes on nearly 100 million U.S. households and 13 million businesses—can be fully leveraged on the Internet.

New Internet-centric databases will be constructed. Indeed, consumer and business databases are already being built in which demographic and psychographic attributes mined from the Internet are linked to an e-mail address or Web cookie.

Integration

To date, much of the effort in automating sales and marketing has focused on sales force automation systems to enhance the selling cycle. While a great deal of effort has been expended to automate the back-end tasks of qualifying and closing leads, precious little has been done to automate the collection of high quality leads. Today, 100 to 1,000 leads are needed to produce a single sale. Direct marketing

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is becoming tightly integrated with sales force automation systems. Most of the waste in the sales and marketing process can be eliminated by garnering high quality leads to begin with.

Impact on direct marketing

Direct marketing is being reshaped by the Internet. The efficacy of direct marketing campaigns will be easily measured, and the lifetime value of customers more readily assessed. Coupled with the plummeting cost of Internet-enabled programs, direct marketing will continue to evolve from a transaction-focused activity toward a lifetime interaction between a company and its best customers.

Internet direct marketing has demonstrated cost, implementation-time, and response-rate advantages over conventional techniques. Many innovative companies are already reaping the benefits of an Internet approach and advances in technology promise to even greater e-business benefits.

Case Study: Dell Computers

Driving Electronic Commerce with E-mail Marketing

Dell has pioneered innovative sales and marketing practices. The company is a leading proponent of Internet-based business process automation. In 1997, Dell sold more than US\$1 billion through its Web site.

Dell also realized the power of Internet e-mail to maintain a dialog with customers and prospects. E-mail provides two important benefits over other communication methods: lower cost and quicker turnaround time. Dell found it increasingly expensive to maintain contact with its millions of customers worldwide using direct mail. Also, mailings took weeks or months to implement.

Today, Dell uses e-mail to promote its products and has outsourced the e-mail program, involving mailings to hundreds of thousands of e-mail addresses. Sift's e-mail service bureau provides a turnkey solution handling all list processing, including purging bad e-mail addresses (bounces), removing opt-outs (those who wish to be dropped from the list), transmission, reporting, and ongoing e-mail database management.

Dell's coupling of e-mail marketing with its direct sales model has resulted in increased sales, and a dramatic reduction

in the cost and turnaround time of its direct marketing efforts.

Case Study: PointCast

Opt-in E-mail Promotes New Services

PointCast is a pioneer in information delivery via the Internet. While its public, general purpose news service has slipped from popularity, PointCast offers numerous private versions of its service tailored to the needs of particular audiences.

PointCast developed a service for health care professionals called HealthcareInsider. Promoting the service was a problem. Attracting the target audience with Web banner advertising was difficult—communicating a compelling description of the service was hard to do within the constraints of a 460 x 68-pixel banner.

Using Sift's opt-in e-mail lists of physicians, dentists, pharmacists, and nurses, PointCast was able to precisely target a known audience with a compelling offer. A response rate of nearly 7 percent demonstrated that opt-in e-mail lists can be a valuable part of the marketing mix.

Case Study: Xantel

Reducing the Cost of Sales Leads Through Applied Technology

As a provider of advanced computer telephony integration (CTI) solutions, Xantel had a specific sales and marketing challenge. The company's conventional lead-generation techniques—direct response advertising and trade shows—were producing expensive and poorly qualified leads. The problem was compounded by the nature of Xantel's product, a solution that many customers do not realize exists.

Xantel was eager to identify qualified buyers. Since customers rarely knew they specifically needed Xantel's product, the goal was to identify likely buyers of call centers, sales force automation, telecommuting, and Internet telephony solutions. These intenders might also be interested in Xantel's product, too.

To find these intender leads, Sift convinced Xantel that monitoring Internet discussion forums was the answer. By monitoring the conversation, intenders were identified at the right time in the sales cycle, before the competition discovered them. As a result, the cost of sales leads was reduced and the quality dramatically enhanced. ■

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